

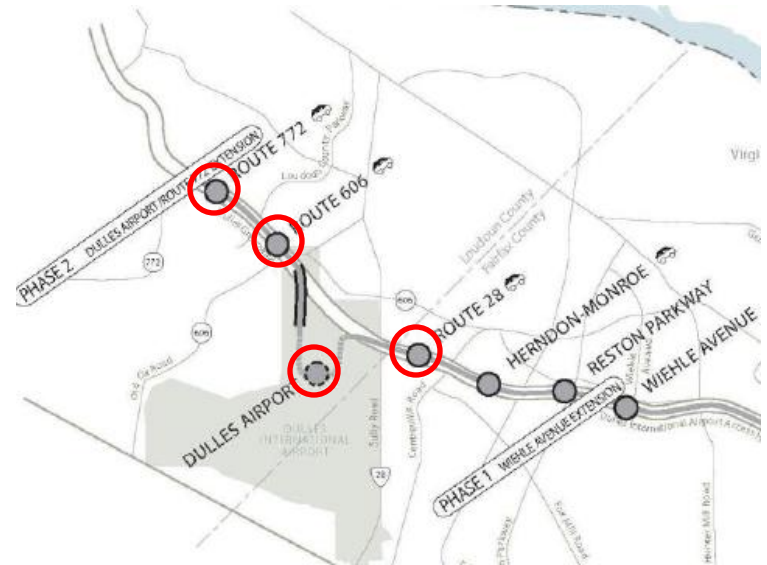
Market and Fiscal Impact Analysis of the Phase 2 Metrorail Extension to Loudoun County

Loudoun County | April 19, 2011

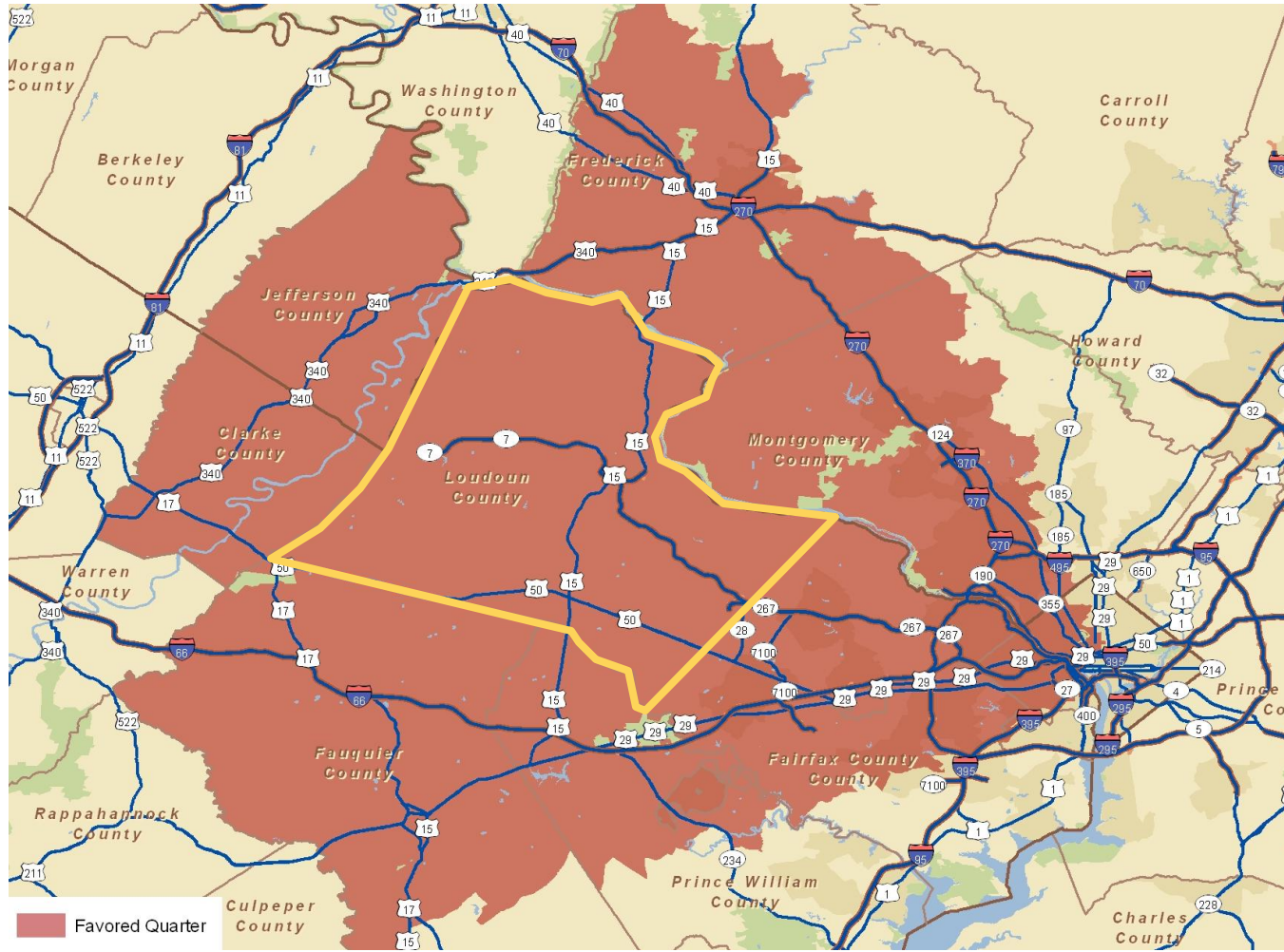


BACKGROUND AND OBJECTIVES

- ▶ RCLCO (Robert Charles Lesser & Co.) is a national real estate advisory firm based in Bethesda
- ▶ Loudoun County selected RCLCO to analyze development and fiscal impact of proposed Phase 2 Metrorail extension
- ▶ Major tasks included:
 - 30-year forecasts of commercial and residential development at countywide, subcounty, and rail station area levels under 2 scenarios:
 - **“Baseline”** assumes completion of the Phase 1 Extension
 - **“Phase 2 Extension”** assumes completion of the Phase 2 Extension
 - Fiscal impact analysis of development at each station area and countywide, under each scenario



LOUDOUN WILL GROW WITH OR WITHOUT PHASE 2
COUNTY IS IN THE CENTER OF THE “FAVORED QUARTER”



- ▶ Higher-end housing and office development concentrated in Favored Quarter
- ▶ Greater economic activity makes Favored Quarter an attractive location for development
- ▶ COG projects 44% of household growth and 48% of job growth will occur in Favored Quarter over next 20 years

BUT RAIL EXTENSION WILL HAVE AN IMPACT

RAIL REDISTRIBUTES DEVELOPMENT WITHIN A REGION

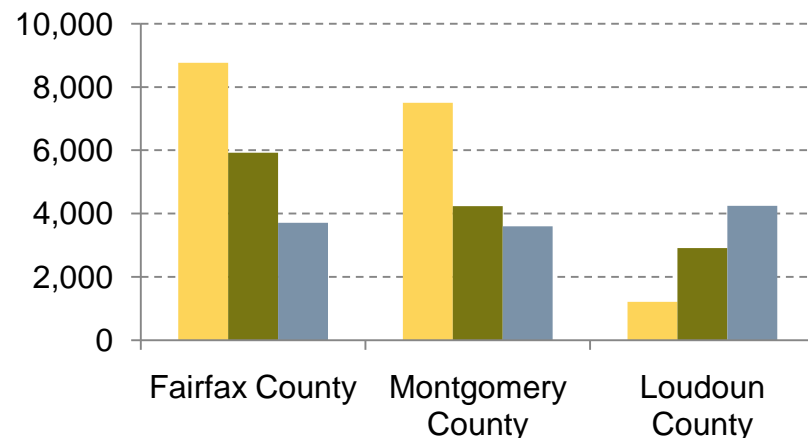
- ▶ Rail extensions do not cause net new development in a metro region
- ▶ Rail service does affect development locations within and between counties
- ▶ Station areas are attractive sites for development
 - ▶ Proximity to rail improves accessibility for residents and employees
 - ▶ Higher gas prices and traffic congestion make transit accessibility even more valuable
- ▶ Development concentrates around station areas and occurs faster than elsewhere—particularly within ½ mile
- ▶ Denser and higher value development is likely around transit stations
- ▶ Property values and rents are higher near Metro stations—in range of 5%-20%

AS COUNTIES MATURE, GROWTH SLOWS

NEW DEVELOPMENT BECOMES MORE URBAN

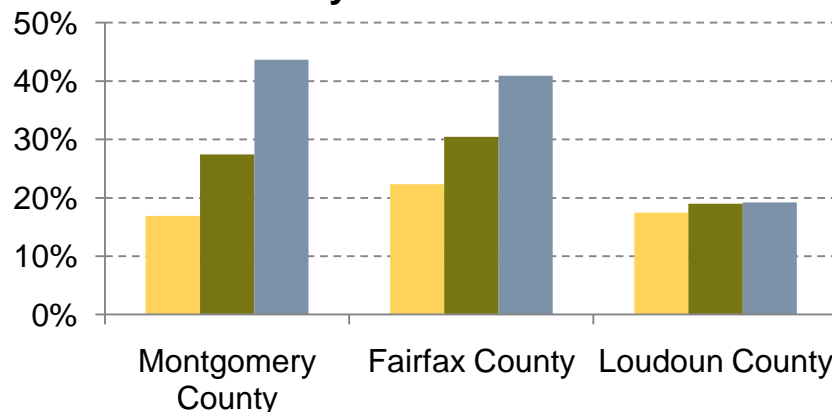
- ▶ Growth in the region will result in Loudoun following patterns of closer-in counties such as Fairfax
- ▶ Continued rapid growth, but decreasing share of metro area total
- ▶ Increasingly urban
- ▶ Increasing % of housing units will be multifamily
- ▶ Increasing % of employment growth will be in office

Annual Growth in Number of Households



1980 - 1990 1990 - 2000 2000 - 2010

Multifamily Permits as % of Total



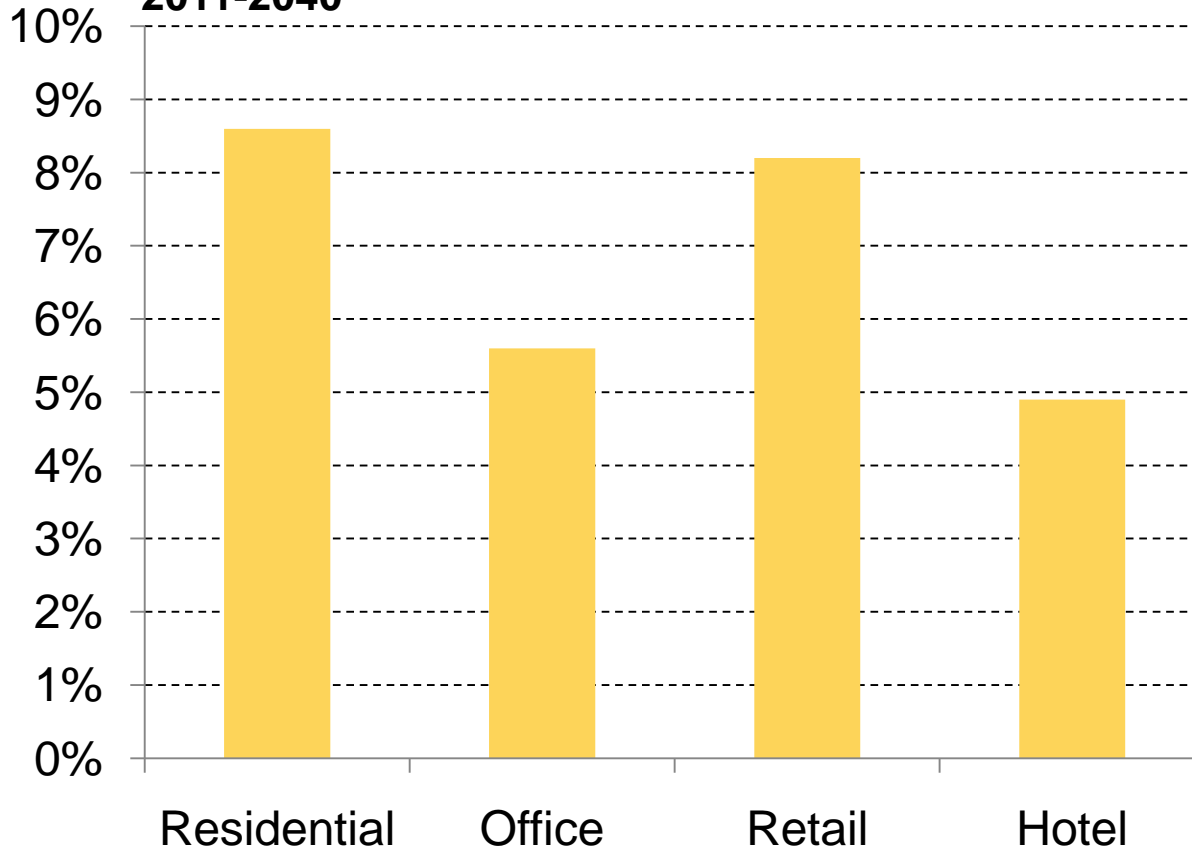
1980 - 1989 1990 - 1999 2000 - 2009

FISCAL IMPACT MODEL

- ▶ Updated fiscal impact model developed in 2002 for Moorefield Station approval process
- ▶ Includes all revenues and non-capital expenditures associated with real estate development
 - ▶ Does not include capital costs or Metro operating costs
- ▶ Analyzed impact of development *at each station area* under Baseline and Phase 2 scenarios
- ▶ Also analyzed difference in fiscal impact between Baseline and Phase 2 scenarios *countywide*
 - ▶ Only counts “net new” development in Loudoun County due to Phase 2 Extension
- ▶ Model takes account of changes in amount of development, property values, rents, and sales due to the Phase 2 Extension
- ▶ Results in 2010 constant dollars

TOTAL COUNTY DIFFERENCE

**Percent Difference in Development by Product Type
Due to Phase 2 Extension
2011-2040**



- ▶ 4,798 residential units
- ▶ 1,039,000 square feet of office development
- ▶ 647,000 square feet of retail development
- ▶ 219 hotel rooms

RESIDENTIAL DEVELOPMENT FORECAST

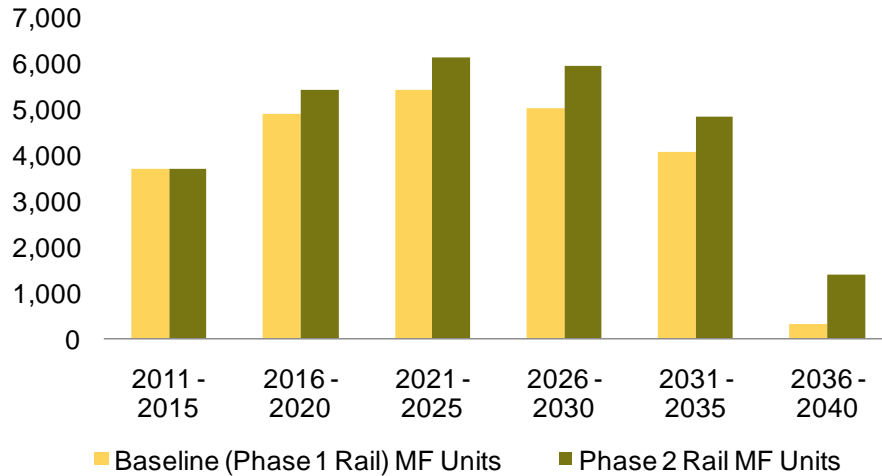
New Residential Development Forecast by Planning Subarea and Station Area, 2011-2040

	Baseline	Phase 2	Difference
Ashburn	15,731	19,195	22%
Rt. 606 Station	0	0	0%
Rt. 772 Station	5,303	8,788	66%
Dulles	19,354	19,376	0%
Leesburg	4,562	4,567	0%
Northwest	1,698	1,728	2%
Potomac	627	628	0%
Route 15 North	1,957	1,957	0%
Route 15 South	1,442	1,442	0%
Route 7 West	3,760	3,761	0%
Southwest	718	730	2%
Sterling	6,041	7,304	21%
Route 28 Station	0	1,265	N/A
Countywide	55,890	60,688	9%
Station Areas	5,303	10,053	90%

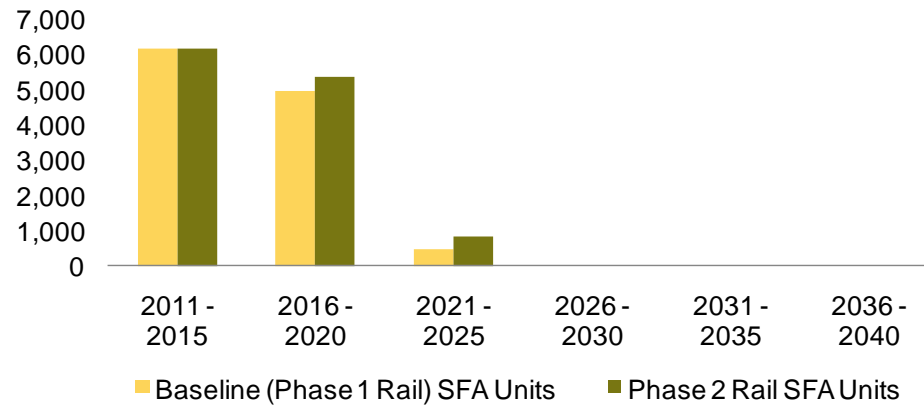
- ▶ Phase 2 Extension increases housing forecast by 9% (4,798 units) countywide
- ▶ Residential demand is limited by capacity constraints
- ▶ 99% of added housing units projected to be near Metro stations, due to density bonuses
- ▶ Units within ½ mile of Metro projected to receive a 10%-15% value premium and generate less school enrollment

RESIDENTIAL DEVELOPMENT FORECAST

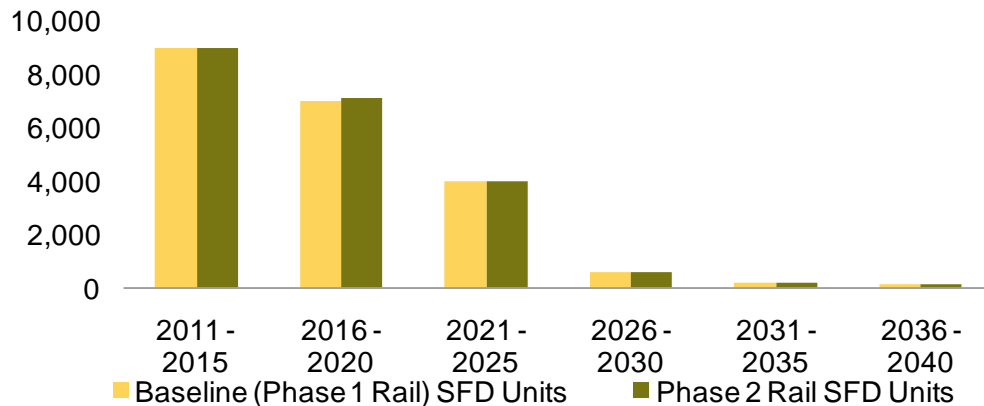
Multifamily



Single-Family Attached



Single-Family Detached



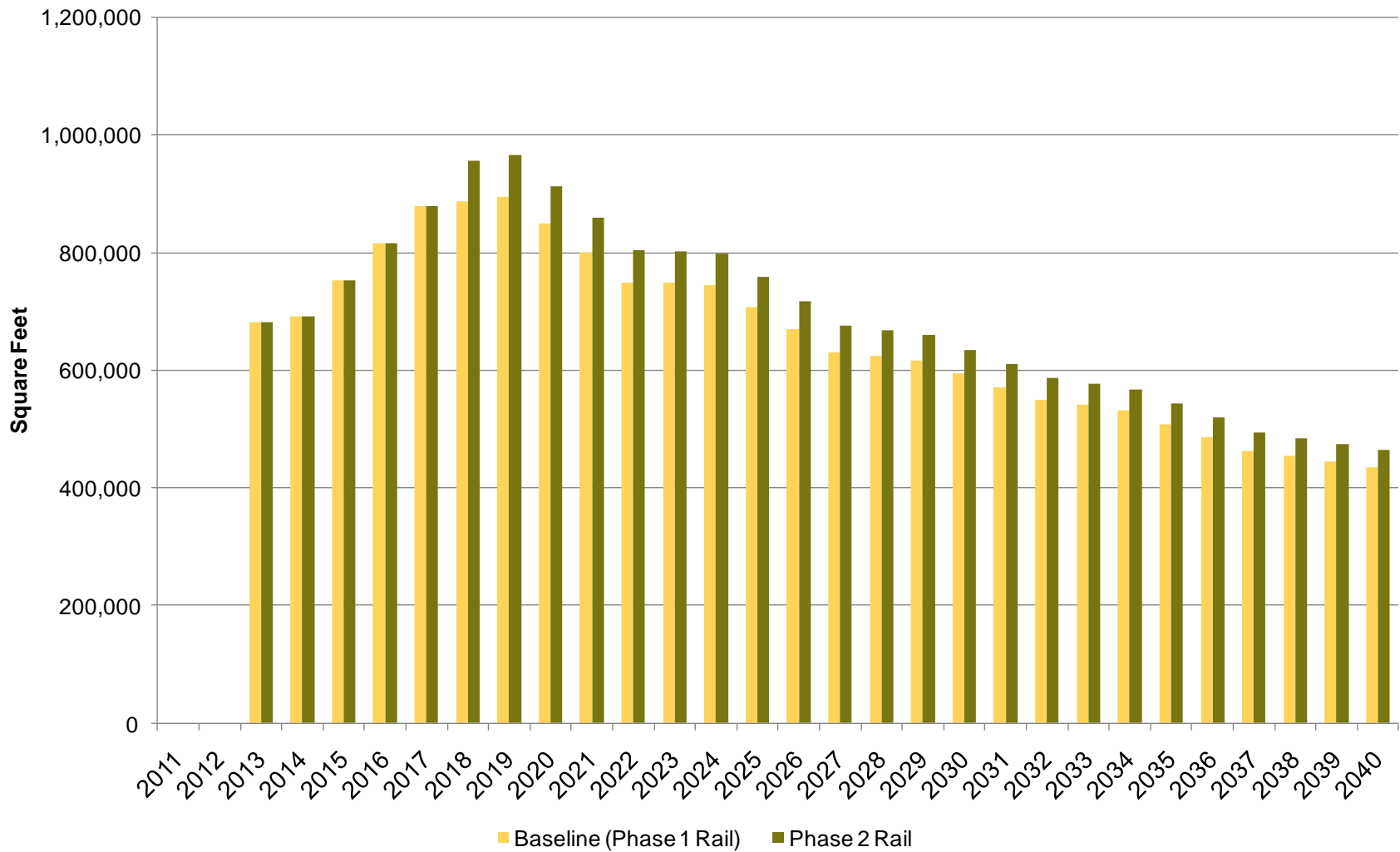
OFFICE DEVELOPMENT FORECAST

Office Development Forecast by Corridor and Station Area, 2011-2040 (Square Feet)

	Baseline	Phase 2	Difference
Route 7	4,235,000	3,147,000	-26%
Route 28	4,581,000	5,359,000	17%
Station Area	1,832,000	2,792,000	52%
Route 50	550,000	550,000	0%
Route 267	3,130,000	4,270,000	36%
Station Area	1,252,000	2,459,000	96%
Route 606	1,664,000	2,234,000	34%
Station Area	1,081,000	1,616,000	49%
Route 625	2,418,000	2,055,000	-15%
Other	1,745,000	1,747,000	0%
County Total	18,323,000	19,362,000	6%
Station Areas Total	4,165,000	6,867,000	65%

- ▶ Phase 2 Extension increases office development forecast by 6% (1.039M sq. ft.) countywide
- ▶ Impact at station areas (65%) much greater due to redistribution of office development within county
- ▶ 10%-15% value and rent premium within ½ mile of Metro

OFFICE DEVELOPMENT FORECAST



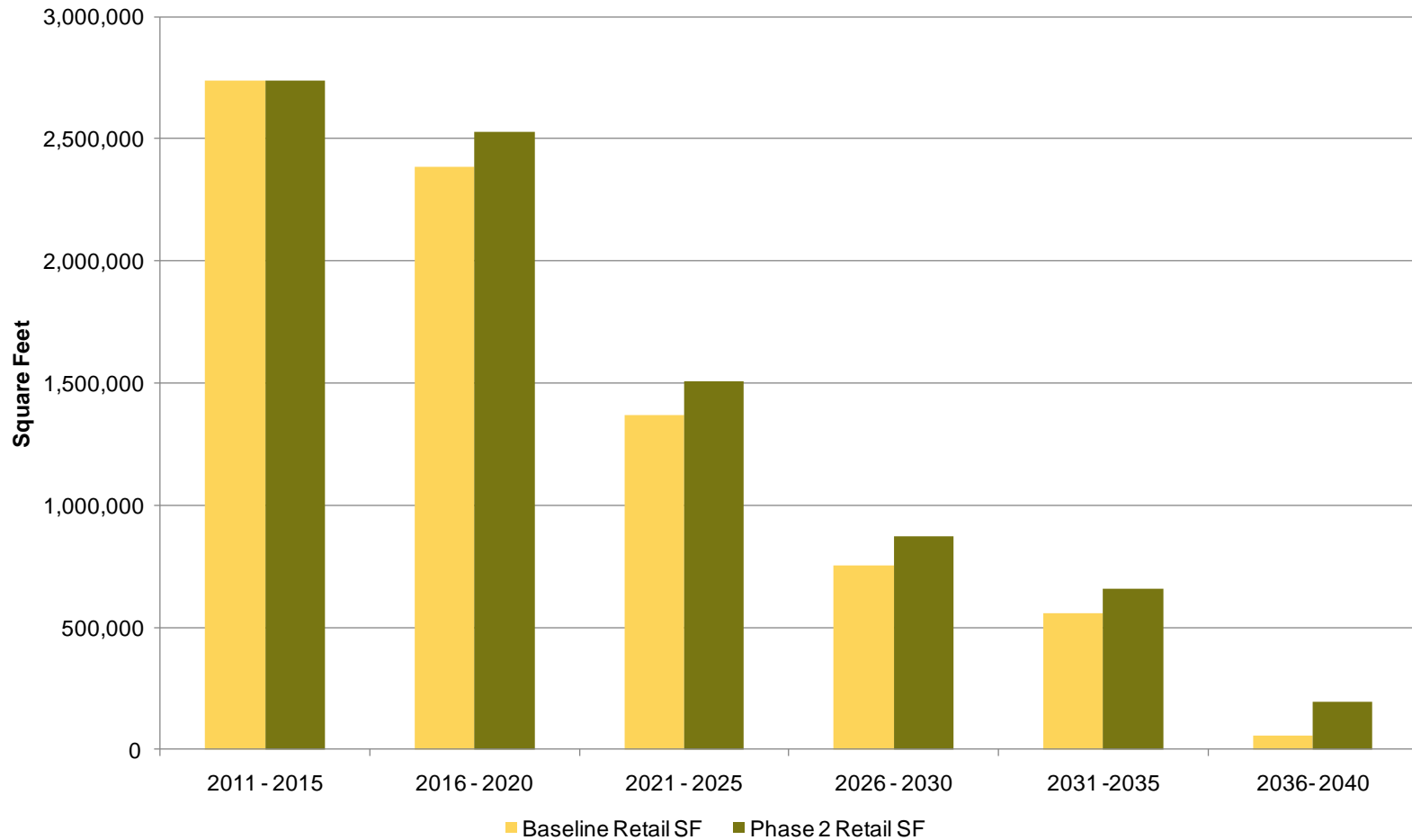
RETAIL DEVELOPMENT FORECAST

Retail Development Forecast by Planning Subarea and Station Area, 2011-2040 (Square Feet)

	Baseline	Phase 2	Difference
Ashburn	2,370,600	2,746,980	16%
Route 606 Station Area	47,000	82,000	74%
Route 772 Station Area	95,000	192,000	102%
Dulles	2,556,720	2,615,080	2%
Leesburg	631,990	676,010	7%
Northwest	0	0	0%
Potomac	78,540	85,010	8%
Route 15 North	78,540	85,010	8%
Route 15 South	78,540	85,010	8%
Route 7 West	283,420	295,650	4%
Southwest	0	0	0%
Sterling	1,775,650	1,912,250	8%
Route 28 Station Area	284,000	344,000	21%
County Total	7,854,000	8,501,000	8%
Station Area Total	426,000	618,000	45%

- ▶ Phase 2 Extension increases retail development forecast by 8% (647,000 sq. ft.) countywide
- ▶ Retail development is tied to household growth
- ▶ Retail in station areas projected to be primarily town center retail
- ▶ 0%-4% value, rent and sales premium within ½ mile of Metro

RETAIL DEVELOPMENT FORECAST



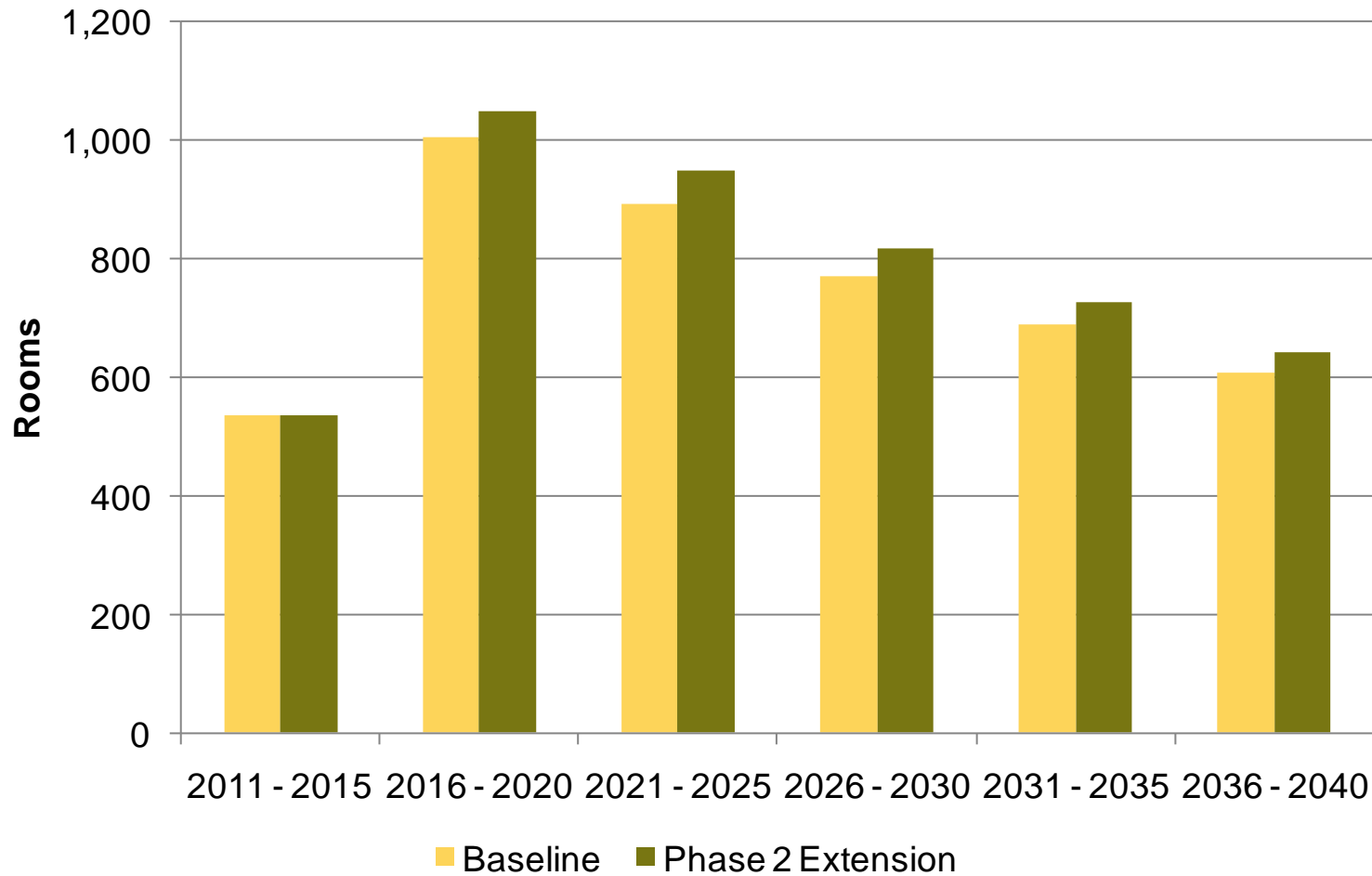
HOTEL DEVELOPMENT FORECAST

Hotel Development Forecast by Planning Subarea and Station Area, 2011-2040 (No. of Rooms)

	Baseline	Phase 2	Difference
Route 7	450	472	5%
Route 28	1,801	1,416	-21%
Station Area	540	779	44%
Route 50	225	236	5%
Route 267	675	944	40%
Route 772 Station Area	439	708	61%
Route 606	675	944	40%
Station Area	405	661	63%
Route 625	225	236	5%
Other	450	472	5%
County Total	4,501	4,720	5%
Station Areas	1,384	2,147	55%

- ▶ Phase 2 Extension increases hotel development forecast by 5% (219 rooms) countywide
- ▶ Hotel development driven primarily by office development
- ▶ Hotel development will concentrate near Metro stations
- ▶ 5%-10% value and room rate premium within ½ mile of Metro

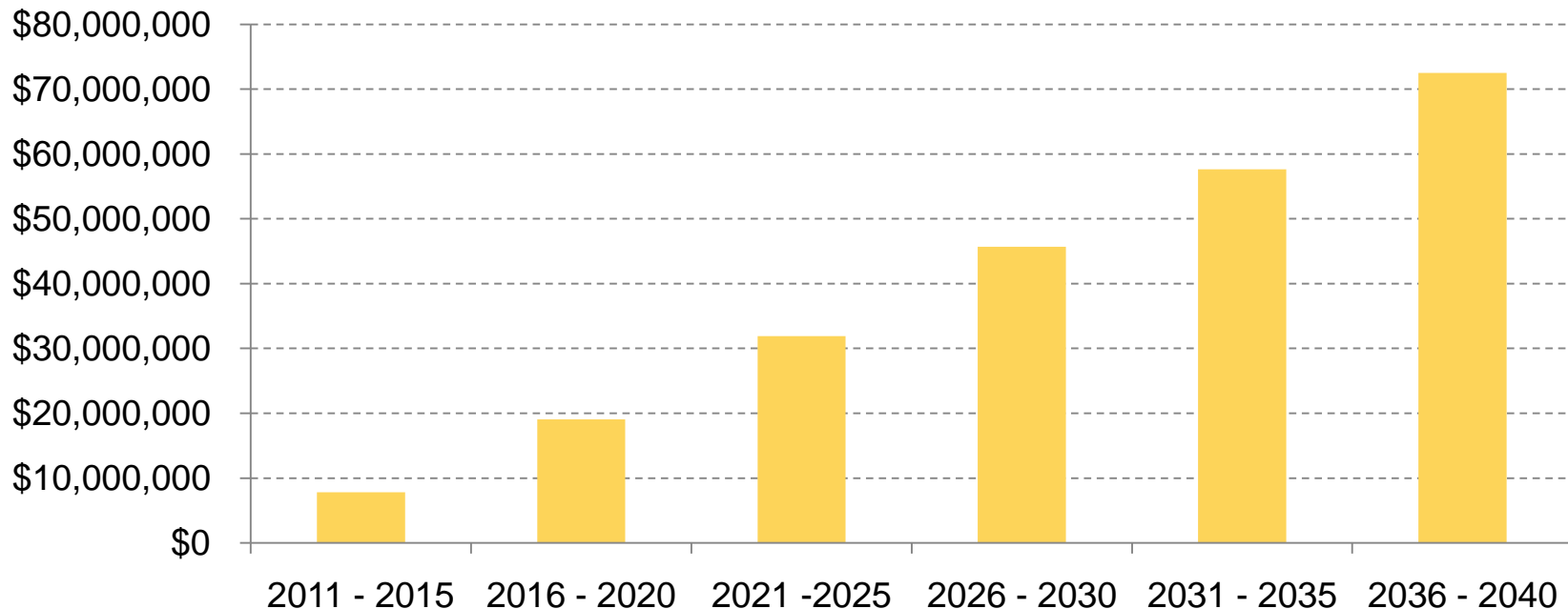
HOTEL DEVELOPMENT FORECAST



COUNTYWIDE NET FISCAL IMPACT OF PH. 2 RAIL

COUNTS ONLY “NET NEW” DEVELOPMENT

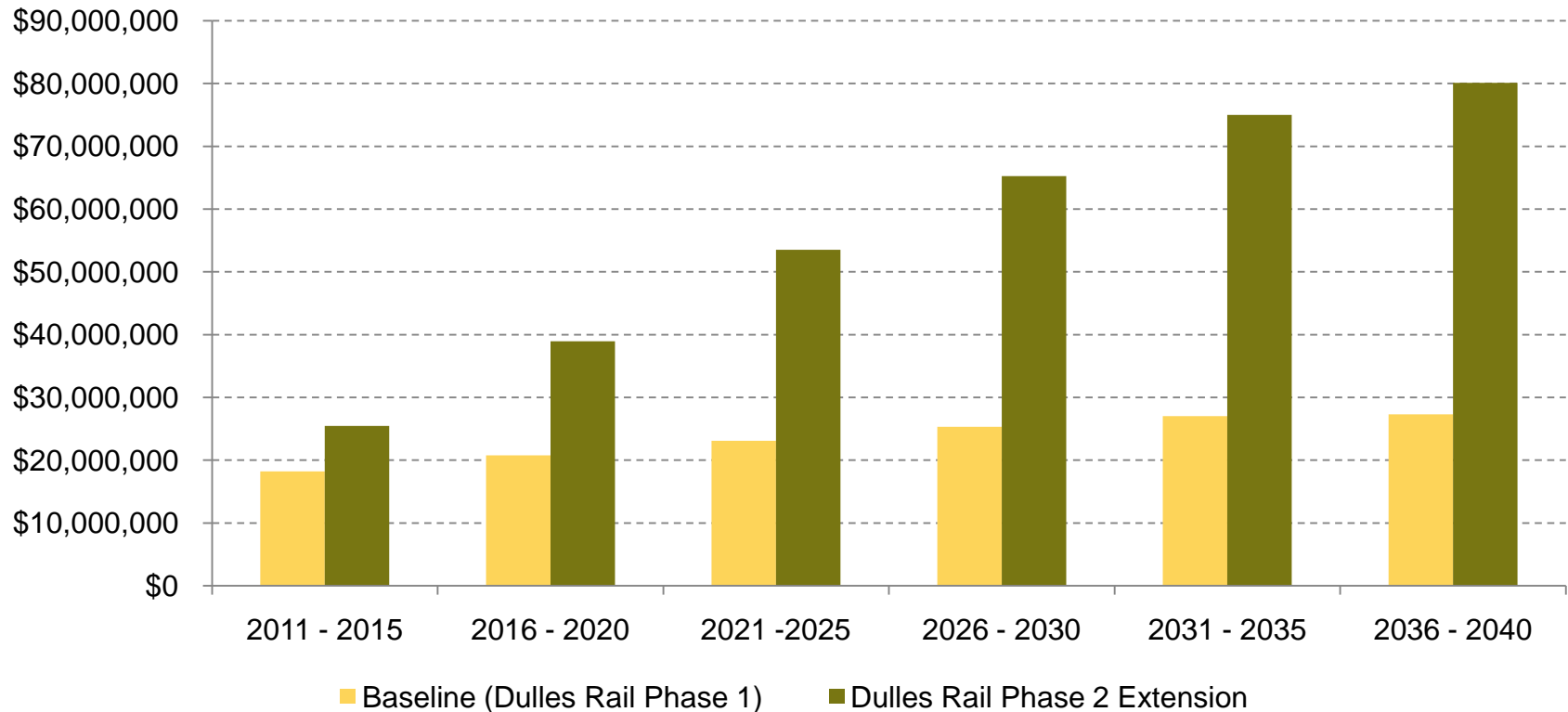
**Net Fiscal Impact of Phase 2 Extension Countywide
2011-2040**



- ▶ Total revenues associated with net new development: \$542,668,000
- ▶ Total expenditures associated with net new development: \$308,111,000
- ▶ Total net fiscal impact estimated to be \$234,577,000 in 2010 dollars

ROUTE 772 STATION AREA

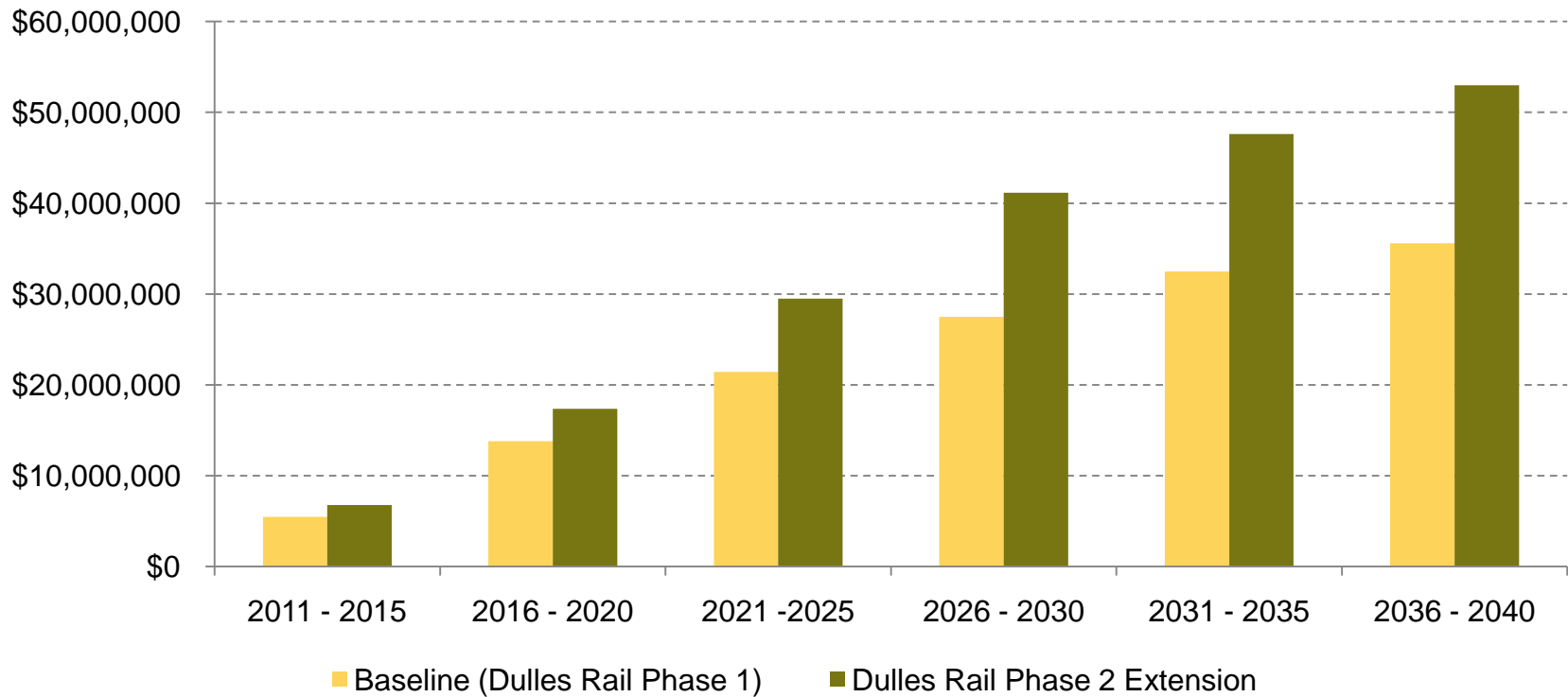
Net Fiscal Impact of Route 772 Station Area Development 2011-2040



- ▶ Total net fiscal impact of Phase 2 Extension estimated to be \$196,576,000 in 2010 dollars

ROUTE 28 STATION AREA

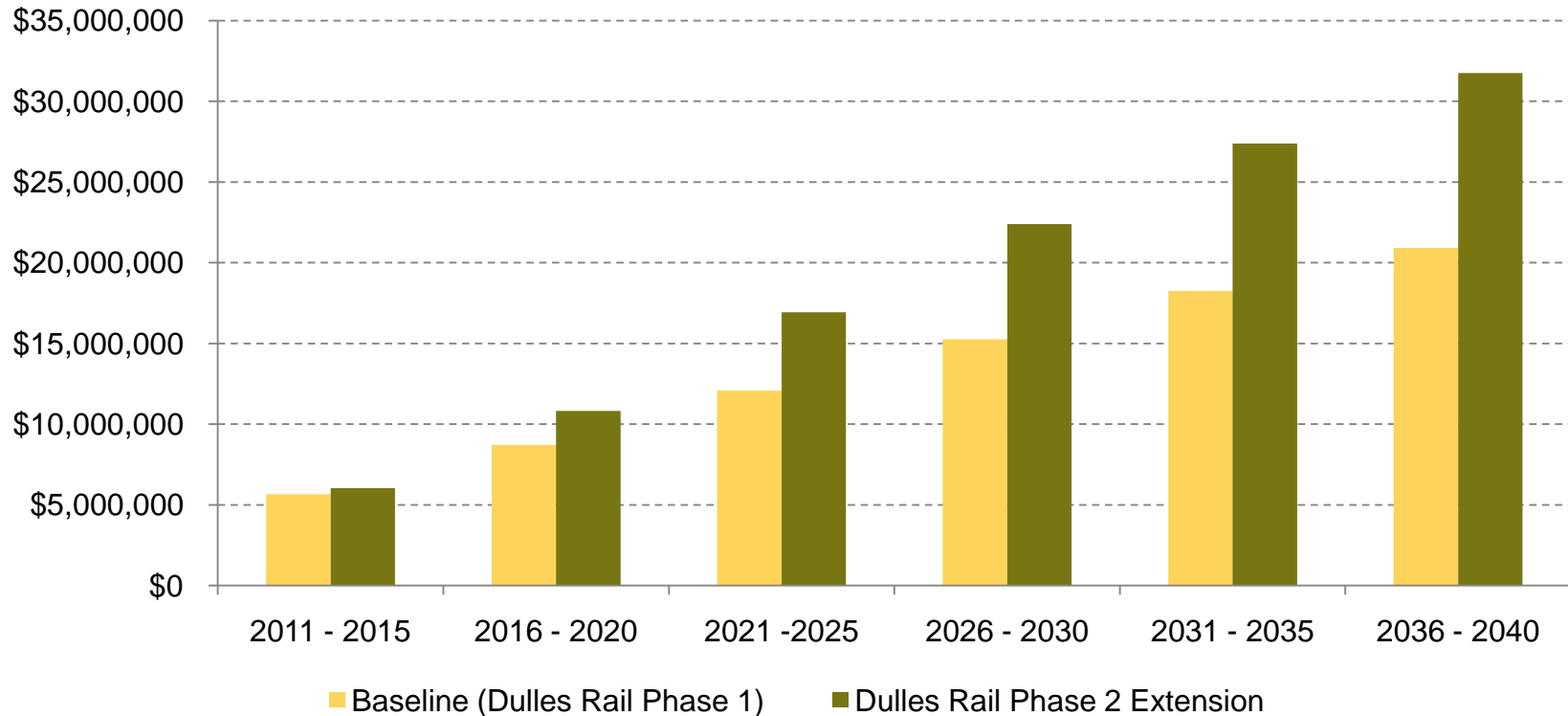
Net Fiscal Impact of Route 28 Station Area Development 2011-2040



- ▶ Total net fiscal impact of Phase 2 Extension estimated to be \$59,097,000 in 2010 dollars

ROUTE 606 STATION AREA

Net Fiscal Impact of Route 606 Station Area Development 2011-2040



► Total net fiscal impact of Phase 2 Extension estimated to be \$34,410,000 in 2010 dollars

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Loudoun County | April 19, 2011



DAVENPORT

& COMPANY LLC

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**One James Center
901 East Cary Street
14th Floor
Richmond, Virginia 23219**

Possible Funding Strategies Prepared for



April 19, 2011

Current Capital Funding Strategies – Loudoun County



- General Fund projects in nature.
- Generally non-revenue producing projects such as schools, courts, administrative facilities, parks, etc.
- Typically no specific revenue source(s) identified to service the debt and/or the level of revenue(s) are insufficient to meet debt service.
- Amortized over 20 years using a Level Principal structure.
- Goal is to meet/exceed the County's 60% 10-year payout ratio.
- Results...Loudoun County enjoys a nearly 70% Payout Ratio and AAA ratings from all 3 nationally recognized rating agencies.



Current Capital Funding Strategies – Non-General Fund Projects

- Typically not funded from full faith and credit source(s).
- Long term debt is structured to match the long term revenue forecast so that there is minimal, if any, cash flow by the local government or governing body(s).
- Generally 25-40 years of debt service payments.
 - Loudoun Water / Route 28 / Rural Development and other projects(s) with a defined revenue stream/source of funds.
- Typically level debt service payments – often after a period of ramping up the debt service to account for project start-up.
- In many cases, permanent financing follows interim funding during the construction and start-up phases of the program/project.
- Rating agencies do not look at 10 year Payout Ratios in these instances.

Dulles Corridor Metrorail Project – Funding Strategies



- Consider the potential incremental revenues that could result from this project.
- Recognize that the capital commitment will occur over roughly the next 5 years, however...
- Build-out around the project nodes will take over 20 years, so...
- Consider Interim Funding during construction – not to be confused with variable rate financing – that could lock-in funds at a fixed rate up to 5 years, then...



Dulles Corridor Metrorail Project – Funding Strategies (continued)

- As development occurs and actual new revenues are realized, the County could better structure the permanent funding to coincide with the available new revenues. These could include, but not be limited to:
 - Special Tax District Monies;
 - Designated BPOL Revenues;
 - Commercial /Industrial Real Property Tax for Transportation; and/or
 - Growth in Real Property, Sales and BPOL taxes could be designated.



Dulles Corridor Metrorail Project – Funding Strategies and the County's Current Capital Improvement Plan

- Recognize that if structured properly, the Dulles Corridor Metrorail Project could have a limited debt capacity and cash flow impact on the County's Capital Improvement Plan.
- The rating agencies recognize that this project is unique and that it would be structured and counted differently than General Fund projects and debt.
- Typically, the rating agencies do not count interim financing against a locality's debt profile due to the very nature of the obligation.

Metrorail Funding Options

- Additional Revenues presented by Mr. Bogorad of Robert Charles Lesser
 - Total net fiscal impact estimated to be \$235M in 2010 dollars
- Debt Alternatives for financing the Rail project were presented by Mr. Rose of Davenport

Metrorail Funding Options

- The County's Capital Improvement Program originally identified Pledge Bonds/BPOL as Funding source
 - ▣ FY 2012 BPOL = \$22M
 - ▣ Would cover debt service, not operations

- Impact on General Fund
 - ▣ 3 to 5 cents in real property rate

Funding Goals

- Associate rail project benefits with funding sources
 - study identified C&I as primary benefit recipient of Metrorail project
- Minimize impact to residential tax bills
- Maintain competitive business tax structure
- Match revenue and debt service timing
- Maintain fiscal policy consistency
- Additionally reviewed other jurisdictions funding plans

Revenue Options

- Dedicated Rail Driven Revenues (existing tax sources)
 - ▣ Incremental BPOL revenues – county wide
 - ▣ Incremental RP/Sales Tax/Personal Property/Other
- Commercial & Industrial Taxes
 - ▣ Commercial & Industrial Transportation Tax
 - ▣ Special Purpose District
- One-Time Sources
 - ▣ Fund Balances, Future Proffers
- Real Property (ultimate “backstop”)
 - ▣ General

Metrorail Funding

☐ Questions